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Agenda Item 7b

December 12, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Quarterly Target Operating Model Update
- II. **PROGRAM:** Total Fund
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

This agenda item provides an update on the implementation of the Investment Office Target Operating Model. The Target Operating Model is a key component of the Investment Office Organization Systems and Controls strategic priority and was presented at the February 2011 Investment Committee meeting. Quarterly, we will provide a summary report of the projects which includes an overview of the Target Operating Model key focus areas, sequence of major initiatives, major accomplishments and future key deliverables.

Attachment 1 is the report for the period ending November 30, 2011.

V. RISKS

The Target Operating Model was developed to mitigate the top three risks identified in the Investment Office Risk Heat Map prepared in Fall 2010. The top three risks were Data Integrity, Portfolio Data & Analytics, and Control Environment. Failure to implement the Target Operating Model would result in an unacceptable level of operating and reputational risk in the Investment Office.

VI. STRATEGIC PLAN:

This item supports the following CalPERS Strategic Goals:

- Goal I – exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.
- Goal IX – achieve long term, sustainable, risk-adjusted returns.

VII. RESULTS/COSTS:

The costs associated with phase 1 of target operating model implementation were included in the Investment Office's 2011-12 budget request. Additional funding will be requested for Fiscal Year 2012-13; the budget is under development.

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